

VZCZCXRO6277
RR RUEHLMC
DE RUEHMU #2368/01 2951901
ZNY CCCCC ZZH
R 221901Z OCT 07
FM AMEMBASSY MANAGUA
TO RUEHC/SECSTATE WASHDC 1545
INFO RUEHZA/WHA CENTRAL AMERICAN COLLECTIVE
RUMIAAA/CDR USSOUTHCOM MIAMI FL
RUCPDO/DEPT OF COMMERCE WASHINGTON DC
RUEATRS/DEPT OF TREASURY WASHINGTON DC
RUEHLMC/MILLENNIUM CHALLENGE CORP WASHDC
RHEHNSC/NSC WASHINGTON DC

C O N F I D E N T I A L SECTION 01 OF 03 MANAGUA 002368

SIPDIS

SIPDIS

STATE FOR WHA, WHA/CEN, WHA/EPSC, AND EEB
TREASURY FOR SARA GRAY
USDOC FOR 4332/ITA/MAC/WH/MSIEGELMAN
3134/ITA/USFCS/OIO/WH/MKESHISHIAN/BARTHUR
SOUTHCOM FOR POLAD

E.O. 12958: DECL: 10/22/2017

TAGS: [ECON](#) [EFIN](#) [EPET](#) [EINV](#) [PREL](#) [PGOV](#) [ETRD](#) [NU](#)

SUBJECT: BUSINESS SECTOR PRIVATELY EXPRESSES DISPLEASURE
WITH ORTEGA

REF: A. MANAGUA 2116

[1](#)B. MANAGUA 1789

[1](#)C. MANAGUA 1753

[1](#)D. MANAGUA 2351

Classified By: Amb. Paul Trivelli for reasons 1.4 b&d

[1](#)1. (C) Summary: On September 19, the Ambassador hosted his third Economic Roundtable with representatives of the private sector. While economic indicators are generally positive, some participants questioned whether economic growth can be sustained given power shortages and a deteriorating investment climate. Roundtable participants voiced concern about the GON's continued disrespect for due process, manifested most recently by its seizure and subsequent return of Exxon fuel storage tanks in Corinto to accommodate Venezuelan oil. A common complaint was the lack of competence in the FSLN government. Participants felt Ortega's speeches are intended to satisfy Hugo Chavez and to regain his standing as a Latin American "revolutionary." For a full list of roundtable participants, see Paragraph 16.
End Summary

Economic Overview

[1](#)2. (C) During the September 19 meeting of the Ambassador's Economic Roundtable, participants from diverse sectors reported that strong consumer spending and commercial banking continue to drive growth. Businesses selling consumer goods, including cars and motorcycles, reported double digit growth in sales in the last few months. Exports for the last seven months are up 20% over the same period last year. Roundtable participants believe that the average Nicaraguan simply ignores President Ortega's political rhetoric, instead focusing on everyday life and buying the things he/she needs. Many roundtable participants saw no signs of consumer retrenchment and felt consumer demand and capacity to purchase remained strong.

[1](#)3. (C) Despite these upbeat reports, other roundtable participants questioned whether economic growth could be sustained, given the continued power shortages (Ref C) and the deterioration of the investment climate following GON attacks on private sector investors (Refs A and B). They pointed out that the Central Bank has scaled up inflation

projections for 2007 from 7% to 10%, largely because of the international price of oil. Many reported that foreign investors have lost confidence in Nicaragua. Bank representatives believe the U.S. mortgage crisis will reduce remittances from Nicaraguans in the U.S., thereby shrinking consumer spending.

Power Shortages

14. (C) Roundtable participants stated that electricity shortages (rolling blackouts) have had a serious impact on production and sales (Ref C). Some vendors of perishable goods have adjusted delivery times to avoid scheduled power outages. One distributor delivers smaller quantities of chicken more often, on a schedule set to match hours when stores have electricity to run refrigerators. This strategy does not work with dairy and ice cream, however, where sales have fallen sharply. One dairy products company is attempting to make up for the drop in sales by introducing a line of fruit juices. According to one banker, agro-processors are cutting back as their overhead costs (mostly electricity and fuel) rise. He fears production may not be able to meet consumer demand, resulting in shortages that will force inflation above the 10% now projected.

Banking

15. (C) Bankers pointed to robust growth in lending capacity and deposits. They argued that borrower confidence is returning to pre-2006 election levels. (Note: While deposits are up in cordobas, in dollar terms they remain flat. End note.) In a recent meeting with the Central Bank, the National Association of Private Banks of Nicaragua (ASOBANP) welcomed the BCN's plans to reduce the legal reserve requirement by 3%, from 19.25% to 16.25%, its pre-June 2006 level. (Note: The BCN publicly announced the change on October 11. End Note.) At least one banker noted, however, a slight rise in missed consumer loan repayments.

16. (C) Bankers highlighted two concerns which could affect their industry: Nicaragua's weak public registry for private property, and the lack of a financial intelligence unit (FIU). The current private property registry is so politicized and open to corruption that its documents are not reliable, limiting the growth of mortgage lending. The GON's recent use of legal and administrative measures to seize the property of U.S. investors (Refs A and B) calls into question Ortega's pledge to respect private property; making it difficult for the bankers to foresee a near-term solution to this problem.

17. (C) The bankers will meet with the Caribbean Financial Action Task Force to discuss Nicaragua's need to establish a FIU and the GON's ability to meet international anti-money laundering requirements. They are concerned that banking operations could suffer if transactions to and from Nicaragua receive greater international scrutiny. (Note: On September 24, post held an event to raise public awareness on this issue (Ref D). End note.)

Oil Sector

18. (C) Roundtable participants expressed serious concern about the GON's disrespect for due process as was manifest in the seizure and subsequent return of Exxon's fuel storage tanks at Corinto I (Ref A). (Note: Exxon will soon sign a hospitality agreement with national oil company Petronic for use of fuel storage tanks at Corinto I. End Note.) The government's desire to exert as much influence and/or control over the energy sector as possible is evident. The Exxon representative believes that the absence of a formal GON plan to take control of Exxon's refinery near Managua does not mean that the "idea has not crossed some peoples' minds." Participants expressed concern that as oil prices reach record highs, the GON will force gasoline retailers to

negotiate with the government to "find a (non-market) solution to high prices."

¶9. (C) Nicaragua's relationship with Venezuela continues to create difficulties for local fuel distributors. Venezuelan shipments of petroleum products arrive faster than Petronic can handle them. The state-owned company lacks storage facilities, technical staff, and logistical planning capabilities. Petronic is also unable to comply with international safety standards, as it showed with a recent trial shipment to Exxon. Even worse, according to the Exxon representative, Petronic views Exxon's logistical requirements and safety protocols as evidence of a lack of cooperation. Roundtable participants agreed that some members of the GON see Petronic and Venezuelan oil as a "giant ATM," from which they can withdraw cash whenever they want.

Views on GON Performance -----

¶10. (C) Roundtable participants noted repeatedly problems arising from the lack of competence within the Sandinista government. Ortega's move to cut the salaries of GON officials resulted in a loss of technocrats and intellectuals, leaving "yes-men who do not know how to make decisions, only to follow orders." They agreed with the assessment that most of Ortega's inner circle had been "inactive for the last 16 years, so they have not changed their perspective on policy." Participants also criticized Ortega's wholesale disregard for the previous administration's policy initiatives. For example, the GON discontinued a very successful seed distribution program which had increased bean and corn yields, creating a surplus for export. In contrast, this season there is a shortage of beans.

¶11. (C) Most roundtable participants believe that Ortega's rhetoric is designed to please Hugo Chavez and to help Ortega regain his "rightful" place as a Latin American "revolutionary." One politically connected participant said that members of the FSLN, including some in government, find Ortega's rhetoric extremely antagonistic. "Ortega is not liked by those around him," he claimed, "but Ortega does not care."

¶12. (C) Roundtable participants stated that the limited central government response to Hurricane Felix may have weakened Ortega's position. Most Nicaraguans saw that the Nicaraguan Army led GON relief efforts instead of the central government. Roundtable participants took the opportunity to express their appreciation for USG hurricane relief efforts.

¶13. (C) The Ambassador told the participants that the U.S. continues to be fully engaged in Nicaragua, but we have serious concerns about this government and the future of democracy here. He also noted the USG's concern with the poor quality of policy making and the centralization of decision-making.

Comment -----

¶14. (C) During the discussion, roundtable participants exposed the private sector's ambivalence regarding the need to defend democratic institutions and the free markets. One participant pointed out that 60% of the Nicaraguan population is functionally illiterate, lacking the capacity to assess Ortega's rhetoric or understand government actions. He stated that it was "up to entrepreneurs to have the guts to publicly condemn the government's attitude." He exhorted other participants to "stop being afraid." Another participant thought that prominent businessman Carlos Pellas had sent enough of a private sector message to Ortega in his recent speech to COSEP - the business federation, when he said, "Businessmen do not need subsidies or hand-outs, they need a rule of law that guarantees justice and serves to protect, not to threaten."

¶15. (C) Nicaragua's business leaders are torn between wanting to work as a group to defend democracy and free enterprise and working privately to cut individual deals with FSLN power brokers. While they understand that they must unite to defend themselves from Ortega's attacks, no one wants to expose themselves to an attack by angering Ortega. End Comment.

¶16. (C) Nicaraguan Private Sector Participants:

Luciano ASTORGA, General Manager, Bank of Central America (BAC), Nicaragua (49.9% owned by GE Financial)

Alberto CHAMORRO, Director) Bank of Central America (BAC), Nicaragua (49.9% owned by GE Financial)

Carlos Reynaldo LACAYO, CEO - Grupo Calsa (Personal care product distribution)

Joaquim de MAGALHAES, General Manager, Esso Nicaragua

Alejandro MARTINEZ Cuenca, President) International Foundation for Global Economic Challenge (Economist, FSLN member, cigar manufacturer, Economy Minister in 1980s)

Ramiro ORTIZ, Jr., Director) Banpro (Nicaragua's largest bank)

Mario SALVO, Technical Director of El Eskimo (dairy, ice cream); Former Minister of Agriculture
TRIVELLI